



REMUNERATION REPORT 2018

MARCH 14, 2019



REMUNERATION PRINCIPLES EXECUTIVE MANAGEMENT

GENERAL PRINCIPLES

It is our vision to become the undisputed, global leader in cigars and pipe tobacco.

To support this vision, our remuneration must ensure that we are able to attract, motivate and retain qualified members of the Board of Directors and the Executive Management.

Our remuneration is designed to reflect a competitive remuneration globally and locally.

Our remuneration must strengthen the alignment of interest between the Board of Directors, the Executive Management and the shareholders.

It rewards both short- and long-term contributions and results and is compiled in accordance with good corporate governance recommendations.

Executive Remuneration

The Executive Management's remuneration is assessed annually and compared to the remuneration level of similar international companies in terms of size and complexity.

The Executive Management is subject to a short-term incentive plan (STIP) according to which the CEO may receive an annual target bonus of 20% with a potential bonus of up to 40% of the annual base salary, and the CFO may receive a target bonus of 25% with a potential bonus up to 50% of the annual base salary.

The Executive Management is subject to the Group's long-term incentive plan (LTIP) according to which the participants receive an annual

grant of performance share units (PSUs). The CEO receives an annual grant of PSUs corresponding to 40% of the annual base salary, while the CFO receives a grant of PSUs corresponding to 30% of the annual base salary. The value of the PSUs follows the trading value of the Scandinavian Tobacco Group shares during the three-year performance period. The number of shares, if any, to be allocated to each participant under the LTIP following a 3-year performance period will be determined on the basis of the initial PSUs, with the addition of any dividend PSUs granted, adjusted by the performance in the performance period against the pre-defined KPI multiplier (between 0.0 and 2.0).

COMPENSATION STRUCTURE EXECUTIVE MANAGEMENT

	LTIP	STIP	Base salary
CEO	Max 80% of base salary	Max 40% of base salary	100%
CFO	Max 60% of base salary	Max 50% of base salary	100%

REMUNERATION ELEMENTS

1

BASE SALARY

Base pay is reviewed annually by the Board of Directors, taking local market pay development as well as individual and company performance into account.

Other benefits

Company car (or car allowance) and insurance benefits are provided in line with market practice.

2

PENSION AND RETIREMENT BENEFITS

Members of the Executive Management are not offered a pension plan.

In connection with the IPO in 2016, an early-retirement plan was changed into a stay-on bonus. With this, the CEO is entitled to a stay-on bonus payable on each 1 January of 2021 and 2024, provided that the CEO continues to be employed in the same position in the company. If the CEO terminates his position, or is terminated for breach of contract, the CEO is no longer entitled to the stay-on bonus. If the employment is terminated by the company for a reason other than breach of contract by the CEO, or if the CEO terminates the employment due to breach by the company, the CEO will be entitled to a proportionate share of any unpaid stay-on bonus.

3

SHORT-TERM INCENTIVE PLAN (STIP)

The STIP aims to reward organisational performance within an annual timeframe. It is based on achievements of predetermined financial or operational KPIs. The STIP may not exceed 70% of the annual salary. The KPIs for 2018 were related to organic EBITDA growth and cash conversion.

STG has the right to clawback (reclaim) any STIP payout that was awarded on the basis of data which subsequently proved to be manifestly misstated.

4

LONG-TERM INCENTIVE PLAN (LTIP)

The objective of the LTIP is to 1) ensure a high degree of alignment with long-term shareholder interests, 2) link rewards to the performance of the organisation on a long-term horizon and 3) strengthen the retention of The Executive Management. The KPIs for the LTIP 2018-2020 are related to organic EBITDA growth and cash conversion.

The Company has the right to clawback (reclaim) PSUs granted and shares vested under the LTIP, if such grant of PSUs or vesting of shares was based, in whole or in part, on data which proved to be materially and manifestly misstated.

5

SEVERANCE PAYMENTS

The employment contracts of the CEO and the CFO may be terminated by the Company with 24 months' and 12 months' notice, respectively. The CEO and the CFO may terminate their position with 12 months' and 6 months' notice to the company.

Within 12 months after a change of the control or delisting of the Company, the CEO may terminate his employment and he will be entitled to 24 months remuneration as if he had been terminated by the Company. Also, the CEO will be eligible to receive a proportional share of his stay-on bonus.

If the Company should wish to terminate the CFO within 18 months after a change of the control or delisting of the Company, the CFO is entitled to a notice of 24 months.

INCENTIVES

STIP 2018 pay-out

The 2018 result entitles the Executive Management to a payout of 125% of the STIP target, corresponding to 62.5% of the maximum.

LTIP 2016-2018

In 2019, shares will be vested under the LTIP 2016-2018 on the basis of the PSUs granted and a multiplier determined by the performance versus the pre-determined KPIs.

The KPIs regarding LTIP 2016-2018 are related to organic EBITDA growth and inventory reduction. The performance in 2018 versus the KPIs results in a share vesting of 50% of the target, corresponding to 25% of the maximum.

STIP HISTORIC PERFORMANCE

Paid in Q1 the following year

	% of maximum
STIP 2016	75%
STIP 2017	25%
STIP 2018	63%

LTIP ACTUAL PERFORMANCE

Performance shares vested

	Vesting	% of target	% of maximum
TSP* 2016-2017	2017	118%	59%
TSP* 2016-2017	2018	0%	0%
LTIP 2016-2018	2019	50%	25%
LTIP 2017-2019	2020	-	-
LTIP 2018-2020	2021	-	-

*A Transition Share Plan granted in 2016.

INCENTIVE PLANS 2018 AND 2018-2020

STIP 2018 KPIs

	Weight
Organic EBITDA growth	75%
Cash conversion	25%

LTIP 2018-2020 KPIs

	Weight
Organic EBITDA growth	75%
Cash conversion	25%

REMUNERATION BOARD OF DIRECTORS

BOARD OF DIRECTORS

Members of the Board of Directors receive a fixed annual fee. Remuneration of the members of the Board of Directors may not include any incentive element. Ordinary members receive a fixed annual fee while the chairman and vice-chairman receive multiples thereof.

Ordinary members of the Board of Directors receive a base annual fee of DKK 400,000. The chairman receives three times the base annual fee. The vice-chairman receives 1.75 times the base annual fee. The chairman of the Audit Committee receives a fee corresponding to 75 percent of the base annual fee. Other members of the Audit Committee receive a fee corresponding to 37.5% of the base annual fee. The chairman of each of the Remuneration Committee and the Nomination Committee receives a fee corresponding to 25% of the base annual fee. The members of each of the Remuneration Committee and Nomination Committee receive a fee corresponding to 12.5% of the base annual fee

The fees for the chairmen and members of the committees are in addition to their fee as chairman, vice-chairman or member of the Board of Directors. In addition to the above, the company may also pay social contributions and similar fees that the Company is charged by foreign authorities in relation to the fees paid to members of the Board of Directors. Further, the company may pay travel expenses and other expenses related to the work as a member of the Board of Directors.

In 2018, members of the Board of Directors and the board committees received fixed annual fees of DKK 6.1 million.

Remuneration to the Board of Directors (DKK thousand)

	Board of Directors	Audit Committee	Remuneration Committee	Nomination Committee
The Chairman	1,200	300	100	100
The Vice-chairman	700	-	-	-
Ordinary members	400	150	50	50

Remuneration to the Board of Directors (DKK thousand)

						2018	2017	2016
Board of Directors	Position	Joined the Board	Left the Board	Board	Committees	Total		
Nigel Northridge	Chairman	April 2016		1,200	200	1,400	1,207	600
Jørgen Tandrup	Chairman	October 2010	April 2017				467	1,400
Henrik Brandt	Vice-chairman	April 2017		700	100	800	543	
Søren Bjerre-Nielsen	Board member	February 2016		400	400	800	768	642
Dianne Neal Blixt	Board member	February 2016		400	150	550	550	504
Luc Missorten	Board member	February 2016		400	150	550	502	367
Henning Kruse Petersen	Board member	October 2010	April 2018	133		133	400	483
Tommy Pedersen	Board member	October 2010	April 2016					150
Lars Dahlgren	Board member	October 2010	February 2016					117
Anders C. Obel	Board member	April 2018		273		273		
Conny Karlsson	Board member	October 2010	December 2017				500	600
Fredrik Lagercrantz	Board member	January 2015	February 2016					92
Anders C. Obel	Board member	October 2010	February 2016					92
Marlene Forsell	Board member	June 2014	April 2017				183	550
Kurt Asmussen	Employee elected	October 2010		400		400	400	400
Hanne Malling	Employee elected	October 2010		400		400	400	400
Lindy Larsen	Employee elected	July 2016		400		400	400	200
Mogens Olsen	Employee elected	July 2017		400		400	200	
Charlotte Lückstadt Nielsen	Employee elected	October 2010	July 2017				200	400
Hermod Hvid	Employee elected	April 2015	July 2016					233
Total compensation to the Board of Directors				5,106	1,000	6,106	6,720	7,230

REMUNERATION EXECUTIVE MANAGEMENT

Remuneration to the Executive Management (DKK million)

2018

2017

2016

	Base salary	Cash bonus (Short-Term Incentive Plan)	Performance share plan (Long-Term Incentive Plan)	Pension	Other benefits	Stay-on bonus***	Total	Total	Total
Niels Frederiksen	6.9	1.9	2.0	0.0	0.2	2.0	13.0	10.8	15.3
Marianne Rørslev Bock*	0.9	0.3	0.0	0.0	0.0	0.0	1.2	0.0	0.0
Sisse Fjelsted Rasmussen**	2.6	0.9	0.8	0.0	0.1	0.0	4.4	6.0	9.3
Total	10.4	3.1	2.8	0.0	0.3	2.0	18.6	16.8	24.6

* Marianne Rørslev Bock joined the Group as CFO and member of the Executive Management on 15 October 2018.

** Sisse Fjelsted Rasmussen's employment ended 31 August 2018.

*** In connection with the IPO in 2016, an early-retirement plan was changed into a stay-on bonus.



REMUNERATION EXECUTIVE MANAGEMENT

LTIP number of PSUs	2018			2017			2016		
	Niels Frederiksen	Marianne Rørslev Bock	Sisse Fjelsted Rasmussen	Niels Frederiksen	Marianne Rørslev Bock	Sisse Fjelsted Rasmussen	Niels Frederiksen	Marianne Rørslev Bock	Sisse Fjelsted Rasmussen
Outstanding at 1 January	66,664	-	29,316	52,672	-	23,452	-	-	-
Adjustment	-	-	-	2,304	-	1,026	-	-	-
Granted	28,708	2,692	1,262	27,160	-	11,727	52,672	-	23,452
Vested	-	-	-	-15,472	-	-6,889	-	-	-
Cancelled	-14,221	-	-6,332	-	-	-	-	-	-
Outstanding at 31 December	81,151	2,692	24,246	66,664	-	29,316	52,672	-	23,452



SHAREHOLDING OVERVIEW

SHARE OWNERSHIP GUIDELINES

The Board of Directors sees it in the best interest of Scandinavian Tobacco Group and its shareholders to align the financial interests of the Executive Management with those of the shareholders.

Consequently, the Board has established Share Ownership Guidelines for the Executive Management. According to these guidelines, the CEO is expected to build a holding of shares equivalent to 100% of the annual base salary, while members of the Executive Management are expected to build a holding of shares equivalent to 35% of the annual base salary.

To build up the required holding of shares, the members of the Executive Management will be required to retain a minimum of 50% of the shares received under the LTIP until the required share ownership is met. The required retention of 50% is calculated after disposals for any tax or other legal obligation, e.g. social security.

The value of performance share units under the LTIP shall not be considered part of the Executive's holding of shares.

According to the share ownership guidelines, members of the Board of Directors should own shares in Scandinavian Tobacco Group.

At 31 December 2018	Niels Frederiksen	Marianne Rørslev Bock
Guideline for share ownership of annual base salary	100%	35%
Actual holding	60,000	0
Actual holding in % of annual base salary	68%	0%
Unvested PSUs	81,151	2,692

Board of Directors' and Executive Management's holding of shares 2018

	At the beginning of the year*	Additions during the year	Disposals during the year	At the end of the year
Nigel Northridge	5,000	0	0	5,000
Henrik Brandt	67,112	0	0	67,112
Søren Bjerre-Nielsen	2,000	0	0	2,000
Luc Missorten	0	2,000	0	2,000
Dianne Neal Blixt	1,700	0	0	1,700
Anders Obel	14,550	5,720	0	20,270
Kurt Asmussen	500	0	0	500
Lindy Larsen	242	0	0	242
Hanne Malling	250	0	0	250
Mogens Olsen	460	1,490	0	1,950
Board of Directors in total	91,814	9,210	0	101,024
Niels Frederiksen	50,474	9,526	0	60,000
Marianne Rørslev Bock	0	0	0	0
Executive Management in total	50,474	9,526	0	60,000
Total Board of Directors and Executive Management	142,288	18,736	0	161,024

* Following the changes in the Board of Directors and the Executive Management, the holding of shares at the beginning of the year has been updated compared with the Annual Report 2017.



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